END GRANTS-IN-AID FOR LARGE AIRPORTS
(A-400-f)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	180	200	220	230	240	1,070
Outlays	40	130	180	220	230	800

The Airport and Airways Development Act of 1970 authorizes the Secretary of Transportation to make grants-in-aid for airport development through the Airport and Airways Trust Fund. In 1981, $450 million in grants went for capital improvements at 581 of the nation's airports.

The Congress could terminate federal grants for capital improvements at large and medium-sized central airports. Such airports are already close to financial self-sufficiency, and replacement of federal grants by local user charges should be possible. A reduction in grant support for large and medium-sized hub airports was approved by the Senate in 1980, and President Reagan made similar proposals in his 1982 budget recommendations. If grants to large airports were eliminated, the five-year outlay savings would be about $800 million.

Large airports usually finance most of their investments from landing charges, rental fees, and other local sources, and federal grants are spread so thin among larger airports that they are not critical in financing major capital improvements. In Atlanta, for example, federal construction grants account for only 2 percent of the airport's capital program. The rest is financed from local revenues from various sources.

Opponents of withdrawing federal grants to large airports question the inequity of subsidizing general aviation and small community airports with revenues paid by large airport users into the Airport and Airways Trust Fund. Advocates of this position note that general aviation users now cover only a small fraction of the airport and airways costs they incur, and that small community air subsidies are already in effect.

Proponents of plan ending federal financial support to large airports argue that restricting federal aid to small (reliever) and general aviation airports represents a more cost-effective use of trust fund revenues, helping to target federal resources to those facilities where local support and user financing are most problematic. In addition, it is argued that large airports would still benefit, inasmuch as the additional investment in smaller airports would help draw general aviation users to them, thus helping to lighten traffic through the nation's larger airport facilities.

ELIMINATE MARITIME INDUSTRY SUBSIDIES
(A-400-g)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	96	128	163	201	241	829
Outlays	30	69	120	176	221	616

The Maritime Administration, a unit of the U.S. Department of Transportation, assists the U.S. maritime industry through construction subsidies to shipbuilders and operating subsidies to shipowners. No new budget authority for construction subsidies was authorized for 1982, but unobligated budget authority carried over from previous years totals about $70 million. Funding for maritime operating subsidies runs at about $400 million annually.

These subsidy programs are intended to put U.S. shipyards and shipping companies on a footing that is competitive with foreign counterparts. Foreign shipyards can now build ships for about half of U.S. costs. Similarly, foreign carriers operate for about two-thirds the costs of U.S. ships. Maritime Administration subsidies narrow these differentials so that the U.S. maritime industry can meet this foreign competition.

Terminating these two subsidy programs would result in total five-year outlay savings of about $616 million--$391 million from reduced operating subsidies and $225 million from reductions in construction outlays (assuming that new budget authority for construction subsidies would otherwise be provided in 1983 and thereafter). The estimated savings fall short of the costs of current programs, because construction obligations spend out over a period of years and operating subsidies are contractual obligations with shippers, typically for periods of 20 years. Thus, phasing the operating subsidy program out entirely to capture the full savings would take about 20 years. In the meantime, however, some additional savings--not accounted for in the CBO estimate--could be realized under current contracts, since the exact level of federal support is usually unspecified. For example, the government might reduce the number of sailings subsidized under a given contract.

One argument in favor of eliminating these programs is that federal subsidies support only a small share of U.S. maritime activities. For example, only two to six ships a year, at most, are built under federal subsidy--a quite small share of the current national production volume of roughly 50 ships a year. The construction subsidies therefore have a limited effect on U.S. shipbuilding capacity. Supporters of the subsidies point out that, if the two subsidies were ended, some loss in shipbuilding capacity, some adverse effects on U.S. export and import prices, and some loss of employment would probably result.

REDUCE FUNDING FOR THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM (A-450-a)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	922	992	1,062	1,128	1,190	5,294
Outlays	92	376	773	1,013	1,080	3,334

The Community Development Block Grant (CDBG) program funds a wide range of urban development and social service activities. Since its creation in 1974, the program has received more than $26 billion in appropriations, including $3.5 billion in 1982. Nearly three-fourths of the funds are distributed on an entitlement basis to central cities of metropolitan areas and to other cities with populations over 50,000. The remainder of the CDBG funds is distributed on a discretionary basis by the Secretary of the U.S. Department of Housing and Urban Development (HUD), mostly to small cities. Most CDBG recipient communities use their grants for repair or replacement of such public works as streets and sidewalks, water lines and sewers, and for housing rehabilitation.

CDBG funds have been dispersed fairly widely. In 1981, 669 cities and urban counties were entitled to grants, and roughly 2,000 small cities received competitively awarded grants. Although the entitlement formulas weight the funding allocations toward older, more distressed areas, the program aids many jurisdictions that are in relatively good fiscal condition. For example, 15 of the least-distressed entitlement cities--including Jacksonville, Houston, Phoenix, and San Diego--received from $12 to $20 per capita in 1981. 1/ The range for 15 of the most distressed entitlement cities--including Newark, Cleveland, Chicago, and Oakland--was $35 to $66 per capita.

CDBG funding could be reduced by one-fourth on the ground that budgetary restraint requires curtailing federal assistance for activities that relatively healthy cities could undertake on their

1. Cities ranked according to distress measures developed by HUD in City Need and Community Development Funding (January 1979).

own. This would save a total of about $3.3 billion over the 1983-1987 period. To maintain current-level funding for more distressed areas, the Congress could develop eligibility criteria to limit grants to those jurisdictions with relatively high levels of need.

Arguments against reducing CDBG funding and narrowing its targeting include the fact that the program is one of the largest remaining sources of fiscal assistance for many cities. Funding from such sources as the Urban Mass Transportation Administration and the Environmental Protection Agency has been cut drastically; this may argue for a more gradual reduction in CDBG funding--if any--to allow localities to adjust for the loss of other federal revenue. Also, CDBG provides a great amount of funding for such activities as housing rehabilitation and infrastructure repair--work that many cities have not been able to fund out of their own resources. Finally, many of the more healthy cities undoubtedly use CDBG funds to improve impoverished neighborhoods that might be neglected in the absence of federal aid.

REDUCE FUNDING FOR LOCAL ECONOMIC DEVELOPMENT
(A-450-b)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	216	233	250	266	281	1,246
Outlays	14	71	136	219	247	687

The federal government tries to stimulate private investment and employment in distressed areas by funding public works projects and by making credit available to private firms. The Urban Development Action Grant (UDAG) program of the Department of Housing and Urban Development (HUD) extends grants to local governments that use the funds to build public works and to provide credit and other assistance to private firms. The Economic Development Administration (EDA) offers public works grants to communities, loans funds directly to private firms, and guarantees privately placed loans. The Farmers Home Administration (FmHA) guarantees private business loans. In 1981, the federal government provided a total of $1.0 billion in economic development funds through these programs--$923 million in grants and $111 million in direct loans. In addition, it provided $904 million in loan guarantees.

The effectiveness of these programs depends on the federal government's ability both to direct funds to areas with serious economic and social problems and to assist only those endeavors that could not otherwise be funded. A large portion of federal economic development assistance is offered to areas that are not generally considered distressed. A portion of the funding from each of the several programs supports firms or projects that would probably proceed without federal financing.

By cutting and adjusting the current programs to correct these problems, federal assistance for local economic development could be reduced substantially while continuing to aid the most distressed areas. The grant and direct loan programs of the EDA and HUD could be reduced by one-third--yielding $687 million in budget savings over the 1983-1987 period--and these agencies' targeting requirements could be made more restrictive. Although they already target their funds, the EDA and HUD still assist some communities that are in good economic health, and they often fund projects in vital commercial centers of some otherwise distressed cities, where full conventional financing might soon become available. The two agencies also provide some funds to firms that could receive private credit and to public works projects that could be funded locally.

Federal loan guarantee programs could also be reduced--by some $2.1 billion over the 1983-1987 period. (This would not, however, be reflected in budget savings). EDA's guarantee authority could be reduced by one-third, while FmHA assistance could be terminated. The same arguments that apply to grant and loan programs also apply to loan guarantees. FmHA focuses most of its assistance on localities that, by most measures, are not economically distressed. This agency also generally funds less risky projects than the EDA or HUD and uses nearly 30 percent of its guarantee authority for debt restructuring and the transfer of ownership--activities that may not necessarily be linked to new investment. FmHA assistance may thus be more prone than EDA or UDAG aid to substitute for private credit, and it may also yield less in the way of new investment and employment.

An argument against eliminating FmHA business support while only reducing program levels in the other cases is that the reductions would hit rural areas more heavily than urban ones. FmHA focuses its guarantees on areas with populations of fewer than 25,000, while the EDA and HUD focus more strongly on urban areas. Since both agencies direct a large proportion of their funds to distressed areas, reducing these programs' funding might delay or cancel some projects, with consequent erosion of local tax bases and loss of employment prospects.

REDUCE FUNDING FOR ELEMENTARY AND
SECONDARY EDUCATION BLOCK GRANT
(A-500-a)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	100	110	120	130	135	595
Outlays	10	80	110	120	125	445

The 1981 reconciliation act consolidated more than 20 smaller education programs into a single block grant to state education agencies. The Continuing Appropriations Resolution set fiscal year 1982 funding for the new grants at $470.4 million--17 percent below the level needed to maintain the prior year's level of services under the previous categorical programs, after accounting for inflation.

An additional 20 percent reduction in funding for this program would save more than $400 million over the next five years. In its present form, the block grant largely allocates funds to states in proportion to their total school-age populations, and the funds may be used for any of the purposes of the previous categorical programs, which included programs as diverse as basic skills improvement, metric education, programs for the gifted and talented, and the ethnic heritage program. Since the new block grant is not targeted on any specific group of students and is only loosely targeted at any specific services, reducing funding for the block grant, in lieu of like cuts in the targeted categorical programs remaining, would minimally disrupt support of those students and services that may be of greatest concern to the federal government.

The principal argument against reducing the block grant funding is that the Congress, in consolidating the programs, reiterated its commitment to the basic goals of the predecessor programs. Those who favor reduced funding, on the other hand, might hold that the block grant is not effectively targeted at those goals, since funds are allocated on the basis of school-age population rather than on the basis of any criterion related to the goals of the predecessor programs, and also because federal oversight and control under the block grants are likely to be minimal.

REDUCED FUNDING FOR VOCATIONAL EDUCATION
(A-500-b)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	350	370	400	425	460	2,005
Outlays	30	275	365	390	420	1,480

The federal government contributes to state vocational education programs under the Vocational Education Act (VEA) of 1963. The 1982 federal contribution is $646 million, down from $674 million in 1981. About 50 percent of federal VEA funding is unrestricted, so that states and localities may use it to support general vocational education programs. The remaining funds are targeted by the Congress on certain disadvantaged population groups or are restricted to certain activities, such as bilingual education and program improvement efforts.

Eliminating the untargeted portion of Vocational Education Basic Grants beginning in 1983 would result in cumulative savings of about $1.5 billion in 1983-1987. Savings in the initial year would be small, however, because the program is forward-funded.

Those who favor such a reduction argue that the federal contribution is not essential to the continuation of general vocational education programs; that the principal beneficiaries of these programs are youths who are generally not disadvantaged; and that the job-specific skill training that is the mainstay of general vocational education programs has not been shown to be of particular benefit, especially at the high school level where most VEA funds are spent.

Those who oppose eliminating untargeted support argue that the states and school districts may in some cases not pick up the slack, thereby lessening access to vocational education for some students. This would be a loss principally at the postsecondary level, where vocational training appears to yield long-term benefits. Pell grants, however, are available to persons who wish to enroll in vocational education or other programs at the postsecondary level.

Another option would be to fold all federal vocational education support into the general elementary and secondary education block grant described in the previous item. The savings achieved would depend on the level of overall funding provided by the Congress for the block grant. This option would, however, probably reduce the targeting of federal education dollars on specific disadvantaged populations and on specific program goals.

RESTRUCTURE CAMPUS-BASED STUDENT AID PROGRAMS
AND REDUCE THEIR FUNDING
(A-500-c)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	265	275	300	320	340	1,500
Outlays	40	225	280	300	340	1,165

Three federal student assistance programs are administered directly at the campus level--College Work Study (CWS), National Direct Student Loans (NDSLs), and Supplemental Educational Opportunity Grants (SEOGs). Appropriations for these campus-based programs in 1982 total approximately $1 billion--50 percent for part-time work, 20 percent for loans, and 30 percent for grants. In addition to providing different types of aid, the three programs differ in their rules for distributing funds to institutions, the rates at which institutions are required to match federal funds, and the degree to which funds are targeted on low-income students. Current rules allow institutions to shift some of their allocations among the programs to reflect different institutional priorities and needs.

One means of curtailing campus-based aid would be to combine the current programs into a block grant and reduce funding by 25 percent. This would save $40 million in 1983 and about $1.2 billion over the 1983-1987 period. The same savings could be achieved by retaining the separate programs and simply cutting their funding; this course, however, unlike a block grant, would not enlarge institutional discretion on how best to allocate funds among types of aid and types of students.

On the other hand, combining the campus-based programs while reducing funding would clearly make less student aid available. Because institutions are already allowed to switch some funds among campus-based programs, a block grant might not substantially increase their discretion. Providing the funds as a block grant could also decrease targeting on more needy students if the emphasis was switched among programs.

ELIMINATE FEDERAL IN-SCHOOL INTEREST PAYMENTS FOR GRADUATE STUDENTS
(A-500-d)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1983	1984	1985	1986	1987	
Budget Authority	-25	100	220	300	355	950
Outlays	-15	65	190	280	340	860

Obligations for the Guaranteed Student Loan (GSL) program rose very rapidly, from $700 million in 1978 to $2.9 billion in 1981, after the Congress made all borrowers eligible to have the interest on their loans paid by the government while they were in school. Under the 1981 reconciliation act, all GSL borrowers remain eligible for the in-school interest subsidy, but only those from families with incomes under $30,000, or who can demonstrate actual financial need, may now obtain such loans. The act also added a requirement that borrowers pay an origination fee equal to 5 percent of the amount borrowed. For all new GSL borrowers, the government pays 9 percent interest on their behalf while they are in school. It also pays the lender a variable amount, currently 7 percent, for the life of the loan. This payment provides the lender a market rate of return.

Practically all graduate students continue to qualify for GSLs, and it is estimated that nearly 600,000 of approximately 1.4 million such students will obtain GSLs in 1983. If their eligibility for the in-school interest subsidy were ended, but they remained eligible for GSLs and were relieved of the origination fee requirement, the 1983-1987 savings would be about $860 million. This option assumes that graduate GSL borrowers could also borrow the anticipated in-school interest at the time their loans were made. The lender would thus be assured a yield equal to that now obtainable, but the borrower would make no actual payments until leaving school; other formulations are possible.

The argument for such a change is that even a 9 percent loan is highly subsidized and that the further subsidy represented by the government's payment of in-school interest charges is not necessary in the case of graduate students. They would pay the interest in the form of somewhat higher repayments after leaving school, but they would have better income prospects than other students. If any had difficulty making repayments, the loan could be renegotiated in the light of actual ability to pay.

Opponents of such a change might point to the high real burden of meeting educational costs and argue that this option would increase the large debt burdens some students face on leaving school. Some present lenders might drop out of the program because of its increased complexity, making GSLs harder to obtain. Opponents also assert that, since the Congress has legislated changes in the GSL program in each of the last four years, there should now be a pause so the actual impact of current law can be assessed.

This option increases costs during the first year of implementation for two reasons. First, the entire increase in federal costs from the elimination of the origination fee for graduate students is felt when loans are made, whereas the reduction in costs attending the elimination of the federal payment of in-school interest is felt for only that portion of the year after the loans are made. Second, many graduate students increase their borrowing to cover the in-school interest so that total loan volume increases and federal payments to lenders also increase.

REQUIRE STATES TO PUT UP MATCHING FUNDS
FOR CETA TRAINING PROGRAMS
(A-500-e)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	175	185	200	215	230	1,005
Outlays	170	180	195	210	220	975

If current policy is continued, state and local governments will receive $1.9 billion in 1983 to support training programs for economically disadvantaged persons funded under Title II-B and C of the Comprehensive Employment and Training Act (CETA). Savings would result if states or localities were required to put up matching amounts in order to obtain the federal funds. This option could also be shaped to target CETA funds on areas with the least capacity to pay or the most severe unemployment problems.

The option discussed here, which would require states to match according to their ability to pay, would save approximately $170 million in 1983 and about $1 billion during 1983-1987. The least well-off one-third of the states would not have to provide matching funds. The best-off states would have to provide $1 to obtain $4 of federal funds, whereas the middle group would be required to provide $1 to get $9. This estimate assumes that all states would participate. To the extent that they did not, federal savings would increase while the total number of economically disadvantaged persons enrolled in training programs would decline.

Opponents of this proposal would point to the already strained fiscal circumstances in many areas, and to the difficulty of establishing a fair formula for determining state or local fiscal capacity and hence the level of the required match.

CAP MEDICAID EXPENDITURES FOR LONG-TERM CARE
(A-550-a)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	200	550	900	950	1,050	3,650
Outlays	120	440	890	930	1,020	3,400

Federal Medicaid expenditures for long-term care rose from \$2.0 billion in 1974 to \$5.7 billion in 1980, an average yearly increase of 19 percent, much higher than the average increase of 13 percent for all other Medicaid expenditures. Expenditures for long-term care (consisting primarily of nursing home care) account for 44 percent of Medicaid expenditures.

If annual increases in federal Medicaid spending in 1983 and beyond for these services were limited to increases in medical care prices with an additional allowance for growth in the elderly population after 1984, savings during 1983-1987 would total about \$3.4 billion. (The savings estimate assumes that through 1984 federal funds for acute care services would continue to be reduced for those states experiencing annual increases in excess of target levels.) To adapt to reduced funding for long-term care services, states could be given broader discretion to substitute the provision of social services and other assistance that would enable recipients to remain in their own homes. The 1981 reconciliation act has already made it possible for states to seek federal approval to provide homemaker services, social services, adult day care, and other services to the nursing home population under the Medicaid program. Several studies have demonstrated that home care can be provided at less cost than nursing home care to some persons who would otherwise be institutionalized.

Adding a cap on long-term care expenditures to the limitations contained in the reconciliation act would further restrain increases in outlays for this fast-growing component of the Medicaid program, giving states an even greater incentive to substitute home health care and other less expensive noninstitutional alternatives.

Opponents of a cap on long-term care argue that states might be able to achieve only limited savings if the portion of nursing home residents that could be efficiently cared for outside these facilities was small, or if the result was to increase greatly the number of persons receiving Medicaid long-term care by providing a broader range of noninstitutional services. Finally, the proposal would be uneven in its impact on the states. Application of a ceiling on long-term care would penalize states that have already successfully limited growth of these costs, because they would have less latitude to reduce expenditures for nursing home care.

ALTER THE PATTERN OF HOSPITAL COINSURANCE
CHARGES UNDER MEDICARE
(A-550-b)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	-180	-315	-455	-610	-780	-2,340
Outlays	1,100	1,250	1,450	1,650	1,900	7,350

Under the Medicare Hospital Insurance (Part A) program, patients pay a deductible equal to the estimated average cost of one day's hospitalization--$260 in 1982 and about $300 by 1983. They also pay coinsurance charges (generally 25 percent), but only after 60 days of hospitalization for a particular spell of illness. Consequently, very few Medicare patients--about 0.2 percent--pay hospital coinsurance in any year.

In addition to the first-day deductible, beneficiaries could be required to pay 10 percent of the cost of the deductible for the next 30 days of a hospital stay in each calendar year--about $30 per day in 1983. Medicare would cover all charges in excess of any stay beyond 31 days, or of separate stays above 31 days in a year, thus improving coverage for participants with unusual hospitalization needs. Enrollees would pay only one $300 deductible, no matter how many times hospitalized in a year. This option implicitly sets a maximum yearly out-of-pocket individual liability for hospital costs of about $1,200 for 1983. The Medicaid program would continue to pay the coinsurance costs for those elderly and disabled persons enrolled in both programs. Enactment of this proposal would save about $7 billion over the next five years.

Coinsurance provisions can help to limit federal expenditures in two ways. These provisions make the patients responsible for part of the costs, directly reducing required federal outlays. In addition, hospital patients who pay part of the cost of their care are likely to become increasingly concerned about holding down medical expenditures, limiting their admissions and lengths of stay. Persons with private supplemental insurance, however, would have less incentive to hold down the cost of care if this new coinsurance was covered.

On the other hand, out-of-pocket costs would rise substantially for the majority of elderly and disabled who are hospitalized. Only a small number of Medicare participants would benefit from the improved catastrophic coverage in any one year, whereas the potential $1,200 in cost-sharing represents about 15 percent of average per capita income for the elderly. In addition, since physicians' fees are currently subject to coinsurance under Part B of Medicare, the burden of an illness requiring hospitalization could rise to well over $1,200. Moreover, persons ineligible for Medicaid who could not afford the cost-sharing might forgo some needed medical care.

Although this option would make patients sensitive to the quantity of medical care used, it would not directly encourage use of lower-cost facilities. A different option could be designed to give patients incentives to use less expensive hospitals. Medicare hospital benefits for days 2 through 31 could be based on average per diem costs in hospitals in an area. Patients would be liable for the difference between that amount and the hospital's allowable cost. Patients in low-cost hospitals would therefore pay less than those in hospitals with higher than average costs.

EXPAND MEDICARE HOSPITAL REIMBURSEMENT LIMITS TO INCLUDE ANCILLARY SERVICES (A-550-c)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	-10	-45	-110	-215	-340	-720
Outlays	250	550	975	1,500	1,700	4,975

Medicare limits reimbursement for routine hospital services (room and board, including nursing) to 108 percent of mean per diem costs in groups of similar hospitals. Reimbursements for ancillary services (such as lab tests and X-rays), which account for much of the recent growth in the cost of hospital stays, are not included under these limits, however.

If both routine and ancillary services were subject to an upper limit, large savings could be obtained. The nearly $5 billion five year savings figure shown above assumes a reimbursement ceiling of 110 percent of the group mean, adjusted for diagnostic mix, and a hold-harmless provision to prevent individual hospitals in the early years from receiving less reimbursement than they had in previous years.

Reimbursement ceilings give relatively high-cost hospitals an incentive to reduce costs. The potential for reductions is greater for ancillary services than routine services. Hospitals would have incentives to encourage physicians to reduce use of diagnostic services and treatments when they have limited medical value. In addition, extending the reimbursement limits would remove the current incentive for hospitals to shift costs to ancillary services to avoid the ceiling on routine costs.

This proposal has several drawbacks, however. First, it could lower the quality of care. Second, some of the reduction in reimbursement would be made up by higher charges to non-Medicare patients.